HATLEIGH CORPORATION

(formerly Hambro Canada Limited)

1978 ANNUAL REPORT

HATLEIGH CORPORATION

DIRECTORS AND OFFICERS

J. F. Kay
Chairman of the Board, Director
H. F. Teney, Q.C.
President and Chief Executive Officer, Director
J. B. L. Thomas
Executive Vice-President and Treasurer, Director
J. T. Eyton, Q.C., *Director*
M. A. Jacobs, *Director*
P. J. Keenan, *Director*
R. A. Mackimmie, *Director*
F. Y. McCutcheon, *Director*
H. P. Milavsky, *Director*
R. F. Ruben, *Director*
J. W. Lay, *Secretary*

AUDIT COMMITTEE

J. T. Eyton, Q.C., *Chairman*
F. Y. McCutcheon
J. B. L. Thomas
J. W. Lay, *Secretary*

AUDITORS

Clarkson, Gordon & Co.

HEAD OFFICE

P.O. Box 174, Toronto-Dominion Centre
Toronto M5K 1H6, Ontario

HATLEIGH CORPORATION

(formerly Hambro Canada Limited)

TO THE SHAREHOLDERS:

As you were previously advised, the amalgamation proposed between your Corporation and Hatleigh Investments Limited to continue under the name Hatleigh Corporation and submitted to the Special General Meeting of Shareholders on August 31, 1978 by North Canadian Oils Limited, was approved and became effective as of that date.

The financial statements submitted herewith reflect the reorganization of the capitalization of the Corporation resulting from the amalgamation, and for the first time, results of gas operations, equity in earnings of North Canadian Oils Limited and full consolidation of the results of the wholly-owned subsidiaries Foodex Inc. and Peel-Elder Developments Limited. The accounts of Foodex Inc. for the prior years have been retroactively consolidated in these financial statements and the previous year's figures restated. However, since the investment in Foodex Inc. was previously accounted for on the equity basis of accounting, such retroactive treatment has had no effect on previously reported earnings.

Earnings for the year ended December 31, 1978, before extra-ordinary items, were $4,353,000 compared with $3,770,000 for the previous year. Extraordinary items in 1978 comprised a reduction of income taxes resulting from the carry forward of prior year's losses of $1,411,000; in 1977 extraordinary items totalling $4,417,000 comprised a reduction of income taxes of $277,000, gains on sale of investment in CanadaTrustco and rental properties of Peel-Elder of $6,803,000, less a further write down of the investment in McIntyre Mines Limited of $2,663,000.

Revenues of Foodex Inc. increased by a satisfactory 20% in 1978; contributing factors included further expansion of the Ponderosa Steak House and Frank Vetere's Pizzeria chains and additional days raced by the U.S. subsidiary Gibraltar Pari-Mutuel, Inc. At the end of the year 102 Steak Houses and 18 Pizzerias were open. During 1979 efforts will be concentrated on expansion of the Frank Vetere Pizzeria chain in Ontario and to this end 11 new units were brought into operation in the first quarter.

You're Corporation's wholly owned subsidiary, Peel-Elder Developments Limited, continued its programme of liquidating its assests.

On behalf of the Board of Directors

J. F. Kay
Chairman

H. F. Teng
President

May 11, 1979

HATLEIGH CORPORATION

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1978

(with comparative figures for 1977)

	1978	1977 (restated) (note 2(a))
Revenue:		
Restaurant operations	$ 63,305,000	$ 52,899,000
Racetrack operations	25,364,000	20,663,000
Real estate operations	17,804,000	22,034,000
Discontinued real estate operations		12,166,000
Gas operations	1,750,000	
Equity in earnings of North Canadian Oils Limited (note 5)	292,000	
Other	525,000	1,117,000
	109,040,000	108,879,000
Expenses:		
Costs of operations and administrative expenses	87,022,000	81,585,000
Depreciation, depletion and amortization	3,836,000	3,953,000
Interest — on long-term debt	4,987,000	8,761,000
— other	2,337,000	2,447,000
Minority interest	1,724,000	1,933,000
	99,906,000	98,679,000
Earnings before income taxes and extraordinary items	9,134,000	10,200,000
Income taxes (note 13) — current	2,489,000	1,848,000
— deferred	2,292,000	4,582,000
	4,781,000	6,430,000
Earnings before extraordinary items	4,353,000	3,770,000
Extraordinary items (note 14)	1,411,000	4,417,000
Earnings for the year	$ 5,764,000	$ 8,187,000

(See accompanying notes)

HATLEIGH CORPORATION

INCORPORATED UNDER THE LAWS OF ONTARIO

ASSETS

	1978	1977 (restated) (note 2(a))
Current:		
Cash and short-term deposits	$ 4,486,000	$ 5,242,000
Market securities, at quoted market value (cost — $1,203,000)	1,097,000	
Accounts, mortgages, notes and other receivables	7,357,000	6,981,000
Due from affiliated company	967,000	
Inventories (notes 4 and 18)	17,827,000	20,854,000
Supplies, prepaid expenses and other assets	3,035,000	2,623,000
Total current assets	34,769,000	35,700,000
Investments (quoted market value: 1978 — $15,225,000; 1977 — $2,999,000) (note 5)	15,986,000	2,948,000
Rental properties, restaurants, racetracks and other fixed assets, at cost less accumulated depreciation and amortization of $21,577,000; 1977 — $18,775,000 (notes 6 and 18)	94,042,000	72,733,000
Gas properties less accumulated depletion of $231,000 (note 1)	14,923,000	
Other:		
Mortgages receivable less current portion (notes 7 and 18)	17,627,000	18,962,000
Advances to trustee under employee share purchase plans less current portion (note 8)	1,767,000	2,217,000
Goodwill, at cost less amortization (note 2(i))	17,098,000	12,974,000
Development costs less amortization and sundry assets	1,009,000	613,000
	37,501,000	34,766,000
	$197,221,000	$146,147,000

(See accompanying notes)

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 1978
(with comparative figures at December 31, 1977)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1978	1977 (restated) (note 2(a))
Current:		
Bank demand loans (notes 9 and 18)	$ 18,061,000	$ 25,238,000
Demand loan due to affiliated company (note 12(c))	11,500,000	
Accounts payable and accrued charges	13,709,000	8,160,000
Income taxes payable	1,708,000	1,332,000
Dividends payable to minority shareholders	416,000	
Current instalment on long-term debt	2,382,000	780,000
Total current liabilities	47,776,000	35,510,000
Long-term debt (notes 10 and 18)	60,185,000	37,722,000
Deferred income taxes (note 18)	17,576,000	15,507,000
Minority shareholders' interest (note 11)	25,542,000	19,565,000
Shareholders' equity (note 1):		
Capital (note 12)	41,782,000	29,780,000
Contributed surplus	333,000	519,000
Appraisal excess	7,680,000	
Retained earnings (deficit)	(3,653,000)	7,544,000
	46,142,000	37,843,000
	$197,221,000	$146,147,000

On behalf of the Board:

J. F. Kay
Director

H. F. Tong
Director

(See accompanying notes)

HATLEIGH CORPORATION

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 31, 1978

(with comparative figures for 1977)

	1978	1977
Retained earnings (deficit), beginning of year	$ 7,544,000	$ (2,384,000)
Adjustments on amalgamation (note 1)	(4,599,000)	
Costs of amalgamation net of related income tax reduction of $57,000	(229,000)	
	2,716,000	(2,384,000)
Earnings for the year	5,764,000	8,187,000
Transfer from appraisal excess (note 1)	120,000	
	8,600,000	5,803,000
Realization of excess of ascribed fair value of certain assets over book value		1,741,000
Dividends paid:		
Common shares (note 12(c))	11,500,000	
Special shares (note 12(b)(i))	753,000	
	12,253,000	1,741,000
Retained earnings (deficit), end of year	$ (3,653,000)	$ 7,544,000

(See accompanying notes)

HATLEIGH CORPORATION

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
YEAR ENDED DECEMBER 31, 1978

(with comparative figures for 1977)

	1978	1977
Contributed surplus, beginning of year	$519,000	$519,000
Adjustment on amalgamation (note 1)	(256,000)	
	263,000	519,000
Excess of par value of special shares purchased for cancellation over purchase price (note 12(b)(iv))	70,000	
Contributed surplus, end of year	$333,000	$519,000

(See accompanying notes)

HATLEIGH CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
YEAR ENDED DECEMBER 31, 1978

(with comparative figures for 1977)

	1978	1977 (restated) (note 2(a))
Funds were provided from:		
Operations —		
Earnings before extraordinary items and minority interest	$ 6,077,000	$ 5,703,000
Add (deduct) charges (credits) not involving a flow of funds:		
Depreciation, depletion and amortization	3,836,000	3,953,000
Deferred income taxes	2,069,000	4,388,000
Equity in earnings of North Canadian Oils Limited	(292,000)	
Loss on disposal of fixed assets	221,000	
Funds from operations	11,911,000	14,044,000
Increase in long-term debt less $2,273,000 in 1978 resulting from exchange of special shares	23,430,000	2,666,000
Realization of income tax losses carried forward	1,411,000	277,000
Net change in minority interest	4,253,000	
Sale of investment in Canada Trustco Mortgage Company (net of applicable income taxes of $389,000)		13,731,000
Sale of subsidiary, Aetna-Goldale Investments Limited		760,000
Sale of investments	997,000	
Proceeds on sale of rental properties and other fixed assets	251,000	14,614,000
Reclassification of land held for resale to (from) current assets	(139,000)	15,714,000
Decrease in mortgages and other receivables	1,785,000	1,667,000
Proceeds from issue of shares	513,000	920,000
Total funds provided	44,412,000	64,393,000
Funds were applied to:		
Purchase fixed assets	24,719,000	3,521,000
Increase in investments	13,594,000	
Reduce long-term debt	3,239,000	28,361,000
Purchase of special shares for cancellation	906,000	
Redemption of preference shares	1,948,000	
Dividends paid	12,253,000	
Development costs	829,000	281,000
Other	121,000	(91,000)
Total funds applied	57,609,000	32,072,000
Increase (decrease) in working capital	(13,197,000)	32,321,000
Working capital (deficiency), beginning of year	190,000	(32,131,000)
Working capital (deficiency), end of year	$ (13,007,000)	$ 190,000

(See accompanying notes)

HATLEIGH CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1978

1. Amalgamation

On August 31, 1978, the shareholders of Hatleigh Corporation (formerly Hambro Canada Limited) approved the amalgamation of that corporation with Hatleigh Investments Limited ("Investments") to form the amalgamated Hatleigh Corporation (the "Amalgamated Corporation" or the "Corporation"). Investments was a wholly-owned subsidiary of North Canadian Oils Limited ("North Canadian") which subsidiary owned 3,500,000 common shares or 49.3% of Hatleigh Corporation.

At the date of amalgamation, Investments also owned certain gas properties which had been transferred from North Canadian at book value of $5,296,000 in exchange for one common share of Investments. These gas properties were written up by Investments to their appraised approximate current value of $15,000,000 with the excess of such value over the ascribed purchase price recorded in shareholders' equity as appraisal excess.

Pursuant to the terms of the amalgamation agreement:

(i) North Canadian received 3,500,000 common shares of the Amalgamated Corporation with an aggregate stated value of $19,804,000 on conversion of its shares of Investments.

(ii) The holders of common shares of Hatleigh Corporation, other than Investments, received 1,441,547 Class A special shares and 2,162,320 Class B special shares of the Amalgamated Corporation on conversion of their common shares, on the basis of two Class A special shares and three Class B special shares for each five common shares held. The Class A and Class B special shares so issued by the Amalgamated Corporation were recorded at stated values of $10,091,000 and $15,136,000 respectively being the approximate fair value of such shares at date of issue.

(iii) The 3,500,000 common shares of Hatleigh Corporation held by Investments were cancelled with related reductions in share capital, contributed surplus and retained earnings of $13,721,000, $256,000 and $4,599,000 respectively and with the excess ($7,078,000) of North Canadian's cost of its interest in Hatleigh Corporation over book values of underlying net assets allocated to rental properties ($2,918,000) and goodwill ($4,160,000).

The amalgamation was accounted for as a capital reorganization and the effect thereof on share capital, contributed surplus, appraisal excess and retained earnings of Hatleigh Corporation as described above is included in the following summary:

	Share capital		Contributed	Appraisal	Retained
	Special	Common	surplus	excess	earnings
Balance, prior to amalgamation:					
Hatleigh Corporation, after redemption of preference shares described in note 12(a)		$27,832,000	$519,000		$ 7,544,000
"Investments"		30,920,000		$9,737,000	
		58,752,000	519,000	9,737,000	7,544,000
Adjustments on amalgamation:					
Cancellation of common shares of Hatleigh Corporation held by "Investments" (note (iii) above)		(13,721,000)	(256,000)		(4,599,000)

	Share capital Special	Common	Contributed Surplus	Appraisal excess	Retained earnings
Issue of special shares of amalgamated corporation (note (ii) above):					
Class A	$10,091,000	(10,091,000)			
Class B	15,136,000	(15,136,000)			
Purchase of special shares for cancellation (note 12(b)(iv))	(976,000)		70,000		
Conversion of Class B special shares into 11¼% secured debentures (note 12(b)(v))	(2,273,000)				
Elimination on transfer of gas properties (note 5(ii))				(1,937,000)	
	21,978,000	(38,948,000)	(186,000)	(1,937,000)	(4,599,000)
Balance before the following	21,978,000	19,804,000	333,000	7,800,000	2,945,000
Earnings for the year plus transfer from appraisal excess, less costs of amalgamation and dividends paid (see statement of retained earnings)				(120,000)	(6,598,000)
Balance, end of year, Amalgamated Corporation	$21,978,000	$19,804,000	$333,000	$7,680,000	$(3,653,000)

2. Accounting policies

The following is a summary of significant accounting policies followed in the preparation of these consolidated financial statements:

(a) Basis of consolidation —

The consolidated financial statements include the accounts of all subsidiaries and the results of their operations from dates of acquisition. Significant subsidiaries and the Corporation's percentage ownership in the common share equity thereof at December 31, 1978 were as follows:

Peel-Elder Developments Limited ("Peel-Elder")	100.0%
Hambro Corporation of Canada Limited	100.0%
Foodex Inc. ("Foodex") (see note 3(a))	100.0%
Gibraltar Pari-Mutuel, Inc. ("Gibraltar") — held through Foodex	62.8%

The Corporation's policy is to consolidate the accounts of subsidiaries whose activities are integrated with those of the Corporation. The activities of Foodex first became integrated, and therefore its consolidated accounts were first consolidated, in 1978. For comparative purposes, the consolidated accounts of Foodex for the prior year have been retroactively consolidated in these financial statements. Since the investment in Foodex was previously accounted for on the equity basis of accounting, such retroactive treatment has had no effect on previously reported earnings.

In 1977, the assets, liabilities and results of operations of Peel-Elder were summarized and segregated in the consolidated financial statements of the Corporation. In 1978, the accounts of Peel-Elder have been fully consolidated in the consolidated financial statements of the Corporation. Accordingly, the 1977 amounts have been restated to conform with the 1978 method of presentation.

The assets and liabilities of Peel-Elder are summarized as follows:

	December 31, 1978	December 31, 1977
ASSETS		
Accounts receivable	$ 1,688,000	$ 1,081,000
Investment in North Canadian Oils Limited, at cost	15,116,000	
Land and housing inventories	9,985,000	15,714,000
Rental properties, equipment and fixtures, less accumulated depreciation of $3,348,000 (1977 — $3,087,000)	33,434,000	31,515,000
Mortgages and other assets	21,102,000	23,381,000
Total assets	$81,325,000	$71,691,000
LIABILITIES		
Bank loans	$27,128,000	$20,865,000
Mortgages and notes payable	21,313,000	22,200,000
Deferred income taxes	13,092,000	12,667,000
Other liabilities (excluding $27,694,000 (1977 — $23,750,000) due to the Corporation and an affiliate and eliminated on consolidation)	1,097,000	1,339,000
Total liabilities	$62,630,000	$57,071,000

The operating results of Peel-Elder are summarized as follows:

	1978	1977
Revenue:		
Continuing operations	$17,804,000	$22,034,000
Discontinued operations		12,166,000
	17,804,000	34,200,000
Cost of operations:		
Continuing operations	8,993,000	9,665,000
Discontinued operations		8,886,000
	8,993,000	18,551,000
Operating profit	8,811,000	15,649,000
General and administrative expenses	845,000	865,000
Interest (including interest of $3,027,000 ($371,000 in 1977) on advances from parent and affiliated corporations)	7,713,000	9,026,000
	253,000	5,758,000
Income taxes — deferred	425,000	3,788,000
— current	10,000	70,000
	435,000	3,858,000
Earnings (loss) before extraordinary item (note 14)	$ (182,000)	$ 1,900,000

The provision for income taxes in 1978 and 1977 arose from the sale of certain properties which had a cost for tax purposes which was less than the related carrying value in Peel-Elder's accounts.

(b) Marketable securities and investments —
Marketable securities are carried at lower of cost and market value. Investments in companies in which the Corporation has significant influence are accounted for on the equity basis of accounting. Other investments are carried at cost less, where applicable, provisions for loss in value.

(c) Foreign exchange translation —
In the accompanying consolidated financial statements, fixed assets, related depreciation and long-term debt of Gibraltar, a U.S. subsidiary of Foodex, have been translated into Canadian currency at rates of exchange applicable at dates acquired or incurred, current assets and current liabilities at the rates of exchange at year end and revenue and expenses (other than depreciation) at the average rates of exchange during the year. Gains and losses on translation of foreign currency balances are included in income.

(d) Inventories —

Inventories are carried at the lower of cost and net realizable value with costs of land inventories and of unprocessed meat in the restaurant division of Foodex determined on a specific cost basis and of the remainder of inventories on a first-in, first-out basis.

Costs of certain processed restaurant inventories include labour and overhead charges. Costs of land and housing inventories include servicing costs, realty taxes and interest to the extent the inclusion of such costs does not increase carrying value beyond net realizable value.

(e) Real estate activities —

(i) Land and housing sales are recorded in income at the date of transfer of title. Condominium sales are recorded when the amount due on closing is received. Purchasers are required to pay not less than 15% of the purchase price on closing.

(ii) Income from commercial rental properties is recorded from date of occupancy. Income from residential rental properties is recorded from the date that the property reaches 75% occupancy. Interest, realty taxes, and other carrying costs, less rental income, are capitalized until such dates.

(iii) Interest —

Interest on borrowings which are attributed to land and housing inventories and to rental properties under construction is added to the carrying value of such assets. Interest attributable to other assets is charged against operations as incurred.

(f) Development costs —

The subsidiary, Foodex, follows the practice of deferring such market development costs and pre-opening restaurant costs as are incurred in the first three and four years respectively of establishing a restaurant chain, and of amortizing such costs over the lesser of three years or the period to the end of the fifth year of the chain's development.

(g) Rental properties, restaurants, racetracks and other fixed assets —

The above fixed assets are carried at cost, less accumulated depreciation. The cost of restaurant land and buildings includes site investigation expenditures and interest on the cost of restaurant units during construction.

Depreciation on rental properties is based on the sinking fund method, under which fixed annual amounts, together with an interest factor compounded at the rate of 5% per annum, are charged to income over the estimated useful life of the properties of forty years. Other assets are depreciated using either the straight-line or the declining balance method of depreciation depending on the type of asset.

Rates of annual depreciation and amortization are as follows:

Rental properties	As above
Buildings and improvements	4% to 10%
Racing strips, parking area, roads and siding	6% to 11%
Machinery, equipment, furniture and fixtures	4% to 35%
Leasehold improvements	Over life of lease

(h) Gas Properties —

All costs associated with the exploration for and development of gas reserves including gas production equipment costs are capitalized and charged against income in the proportion that the year's production of gas bears to proven and probable reserves (the composite unit of production method).

(i) Goodwill —

Goodwill of $17,098,000 shown in the consolidated balance sheet relates to Foodex and consists of $7,146,000 arising on the acquisition by Foodex of certain subsidiaries, $5,828,000 on the acquisition of control of Foodex in June, 1972 and $4,124,000 (net of accumulated amortization of $36,000) on the amalgamation described in note 1(iii). The $4,124,000 arising on the amalgamation is being amortized on a straight-line basis over thirty-five years. The remaining goodwill was purchased prior to April 1974 and in accordance with Corporation practice is not being amortized so long as there is no evidence of impairment in value.

(j) Deferred income taxes —

Deferred income taxes are provided on timing differences between accounting income and income for tax purposes. These differences arise principally from claiming depreciation and deducting development costs for tax purposes at faster rates than are applied in the determination of accounting income and from deferring for tax purposes gains on real estate sales represented by mortgages taken back.

3. Business Acquisition and Disposals

Significant business acquisitions during 1978, all of which occurred prior to the amalgamation described in note 1, were as follows:

(a) Foodex —

On June 30, 1978, Foodex Systems Limited was amalgamated with a newly incorporated, indirectly

wholly-owned subsidiary of the Corporation, the only asset of which was the Corporation's then 56.2% interest in the common shares of Foodex. As a result of the amalgamation, the Corporation became the sole owner of common shares of the amalgamated corporation, Foodex Inc., with the former 43.8% common share minority interest receiving in exchange for such interest, preference shares of Foodex Inc. with an ascribed value of $9.00 per share or $18,419,000 in the aggregate.

The amalgamation has been accounted for by the Corporation as a purchase of the former minority common share interest in Foodex for such ascribed value. The excess ($6,217,000) of such value over the book value of the related underlying net assets has been ascribed to land owned by Foodex and its subsidiaries.

(b) North Canadian Oils Limited ("North Canadian") —

Pursuant to an offer made on February 24, 1978, the Corporation through Peel-Elder acquired 1,199,596 common shares of North Canadian for a total cash consideration of $14,981,000. Including 19,700 common shares purchased earlier in 1978, Peel-Elder now owns approximately 21.6% of the outstanding common shares of North Canadian (see note 5).

4. INVENTORIES

Inventories consist of:

	1978	1977
Meat and other restaurant division food inventories	$ 7,842,000	$ 5,140,000
Land and housing	9,985,000	15,714,000
	$17,827,000	$20,854,000

Interest, realty taxes and servicing costs capitalized in the carrying value of land and housing inventories during 1978 totalled $264,000 (1977 — $690,000).

5. INVESTMENTS

The Corporation's investments are as follows:

	1978		1977	
	Quoted market value	Carrying value	Quoted market value	Carrying value
1,219,296 common shares of North Canadian Oils Limited	$12,803,000	$13,471,000		
75,600 shares of McIntyre Mines Limited	1,852,000	1,945,000	$ 1,945,000	$ 1,945,000
Other	570,000	570,000	1,054,000	1,003,000
	$15,225,000	$15,986,000	$ 2,999,000	$ 2,948,000

The investment in North Canadian is carried on the equity basis of accounting. The investment in McIntyre Mines Limited is carried at cost less provisions of $4,663,000 made in prior years to reduce the carrying value to approximate quoted market value at December 31, 1977.

The quoted market values shown above do not necessarily represent the value of entire blocks of investment holdings which may be more or less than the value indicated by market quotations.

North Canadian's principal business is the exploration, production, transportation and sale of natural gas. North Canadian also owns 100% of the outstanding common shares of the Corporation as a result of the amalgamation described in note 1.

Additional information relating to the Corporation's investment in North Canadian is as follows:

	Original cost of investment	Equity in earnings since acquisition	Amortization of gas reserves portion of carrying value (i) below	Adjustments on amalgamation (ii) below	Balance December 31, 1978
Corporations' proportion of book value of underlying net assets (21.6%)	$ 7,864,000	$441,000		$(1,137,000)	$ 7,168,000
Excess cost attributed to gas reserves	7,252,000		$(149,000)	(800,000)	6,303,000
Carrying value of investment	$15,116,000	$441,000	$(149,000)	$(1,937,000)	$13,471,000

(i) The portion of carrying value attributed to proven gas reserves is being amortized over the estimated life of such reserves, being approximately 35 years.

(ii) The adjustments on amalgamation eliminate that portion of the carrying value of the Corporation's investment which was represented by the gas properties transeferred by North Canadian to Hatleigh Investments Limited as described in note 1.

The following is a summary of the financial position of North Canadian at December 31, 1978:

ASSETS	
Current assets	$ 6,278,000
Long-term investments:	
Hatleigh Corporation, at equity	21,385,000
Demand note receivable due from Hatleigh Corporation	11,500,000
	32,885,000
Less cost of shares of North Canadian held by Hatleigh	15,116,000
	17,769,000
Marketable securities, at cost (quoted market value — $10,626,000)	11,677,000
	29,446,000
Property, plant and equipment less accumulated depreciation, depletion and amortization	26,278,000
Other assets	150,000
	$62,152,000

LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	$ 5,827,000
Long-term debt	20,000,000
Deferred income taxes	9,221,000
Shareholders' equity:	
Capital Stock	
Authorized:	
70,000 5½% cumulative redeemable preferred shares, par value $50 each	
7,500,000 common shares	
Issued:	
28,410 preferred shares	1,420,000
5,654,965 common shares	22,914,000
	24,334,000
Capital redemption reserve fund	2,080,000
Retained earnings	15,806,000
	42,220,000
Less cost of shares of North Canadian held by Hatleigh	15,116,000
	27,104,000
	$62,152,000

Revenue and net income of North Canadian, excluding its share of the Corporation's revenue and net income, were $16,423,000 and $3,461,000 respectively for the year ended December 31, 1978.

6. Rental Properties, Restaurants, Racetracks and Other Fixed Assets

The total consists of:

	1978	1977
Rental properties including land	$36,782,000	$34,602,000
Buildings and improvements	27,520,000	24,337,000
Racing strips, parking area, roads and siding	3,361,000	3,070,000
Machinery, equipment, furniture and fixtures	20,789,000	12,261,000
Leasehold improvements	4,448,000	3,051,000
	92,900,000	77,321,000
Less accumulated depreciation and amortization	21,577,000	18,775,000
	71,323,000	58,546,000
Land	22,719,000	14,187,000
	$94,042,000	$72,733,000

7. Mortgages Receivable

Mortgages receivable are primarily first mortgages bearing interest at rates varying from 8% to 14% per annum and consist of the following:

	1978	1977
Mortgages taken back on real estate sales	$19,284,000	$20,612,000
Purchased NHA mortgages, lodged with a trust company to secure $1,239,000 of notes payable by Peel-Elder	1,239,000	1,234,000
Other	188,000	223,000
	20,711,000	22,069,000
Less amounts due within one year included with current assets	3,084,000	3,107,000
	$17,627,000	$18,962,000

The approximate amounts of principal due in the fiscal years 1979 through 1983 are as follows: $3,084,000 in 1979; $2,144,000 in 1980; $5,737,000 in 1981; $7,551,000 in 1982; and $918,000 in 1983.

8. Due Under Employee Share Purchase Plans

Non-interest bearing notes due from directors and senior officers in respect of shares sold under employee share purchase plans are as follows:

Relating to shares of —

	1978	1977
The Corporation (100,000 common shares)	—	$ 900,000
Foodex (264,465 preference shares) due in 1979 and 1980	$ 2,048,000	2,048,000
Interpublishing (Canada) Limited, a former subsidiary, due in 1979 and 1980	102,000	169,000
	2,150,000	3,117,000
Less amount due within one year included in current assets	383,000	900,000
	$ 1,767,000	$ 2,217,000

Under the plans, the purchased shares are held by trustees as collateral security for the notes.

9. Bank Loans

Bank demand loans are made up as follows:

	1978	1977
The Corporation	$ 3,015,000	$ 1,370,000
Peel-Elder	11,878,000	20,865,000
Foodex	3,168,000	3,003,000
	$18,061,000	$25,238,000

The loans of the Corporation and of Peel Elder are secured by debentures aggregating $60,850,000 supported by a specific mortgage on Peel-Elder's real estate holdings and a floating charge on all other property and assets of that subsidiary not subject to other specific mortgage and charge, as well as by the pledging of all of the Corporation's investments and the guarantees of the Corporation and certain subsidiaries.

The bank demand loan of Foodex is secured by the pledge of that subsidiary's restaurant division inventories.

10. Long-Term Debt

Long-term debt consists of:

	1978	1977
The Corporation —		
11¼% secured debentures due August 31, 1988 (see (a) below)	$ 2,273,000	
Peel-Elder —		
Term bank loan bearing interest at 1% above prime bank rate (see (b) below)	15,250,000	
Mortgages and notes payable, bearing interest at an average rate of 9¾% and repayable through to 1996	21,312,000	$22,200,000
Foodex —		
Revolving term bank loan bearing interest at 1% above prime bank rate and repayable over a five year period commencing no earlier than 1983 (see (c) below)	12,750,000	13,000,000

	1978	1977
Term bank loan bearing interest at 1% above the prime bank rate and repayable in blended monthly instalments of $142,000 over a six and one half year period commencing January 1, 1979 (see note (c) below)	7,500,000	
11½% mortgage due January 1, 1979	300,000	300,000
Gibraltar and its subsidiary corporations —		
Term bank loan bearing interest at 1½% above the prime bank rate and repayable as to U.S. $250,000 on March 31, 1981 and U.S. $2,000,000 on March 31, 1982 (see (d) below)	2,250,000	2,750,000
Other	932,000	252,000
	62,567,000	38,502,000
Less amounts due within one year included in current liabilities	2,382,000	780,000
	$60,185,000	$37,722,000

(a) The debentures were issued on the exchange of Class B special shares (see note 12(b) (v)) and are, subject to the prior redemption of its outstanding preference shares (currently in the amount of $1,420,000), guaranteed as to payment of principal and interest by North Canadian.
The debentures bear interest at 11¼% per annum and mature on August 31, 1988. They are secured by a fixed charge on the gas properties described in note 1 and are redeemable, other than for sinking fund purposes, at 111.25% of the principal amount to August 31, 1979, declining by 1.25% annually to 100% in the year ending August 31, 1988.
The Corporation may purchase debentures in the market or by tender or private contract at prices not exceeding the foregoing percentages of the principal amount thereof together in each case with accrued and unpaid interest. In addition the Corporation is required to make sinking fund payments sufficient to retire, on August 31 in each of the years 1979 to 1987 inclusive, $1,500,000 principal amount of debentures or 10% of the aggregate principal amount of debentures previously issued, whichever is the lesser.

(b) Peel-Elder's term bank loan is secured by the debentures described in note 9 as well as by the pledge of that subsidiary's 21.6% holding of North Canadian shares and by a guarantee of the Corporation in the amount of $15,400,000. The loan is to be repaid by 1983 with no indicated payments required within one year and accordingly has been classified as long-term debt in these consolidated financial statements.

(c) The bank loans of Foodex are secured by fixed and floating charge demand debentures totalling $31,000,000 on that subsidiary's assets, by the pledging of all of Foodex's shares in its Canadian subsidiaries and by the guarantees of all such subsidiaries. Under the terms of the bank loans, dividends in excess of 50% of annual earnings of Foodex may not be declared and paid without the prior approval of the bank.

(d) The term bank loan of a U.S. subsidiary is secured by a first mortgage on the Bowie race course properties and by the pledging of all the common shares of a wholly-owned subsidiary of that company. In connection with this loan, such subsidiary has agreed to certain restrictions on debt, capital expenditures and cash flow and a prohibition on the declaration of dividends.

(e) The aggregate amounts payable on long-term debt in the fiscal years 1979 through 1983 are as follows:

1979	—	$ 2,610,000
1980	—	1,869,000
1981	—	2,400,000
1982	—	4,090,000
1983	—	20,083,000

11. Minority Interest

Minority interest is summarized as follows:

	1978	1977
Preference shares		
Cumulative redeemable preference shares of the subsidiary, Foodex, at $9.00 per share (note 3(a) and (a) below)	$16,952,000	
5½% cumulative redeemable Series A preferred shares of the subsidiary, Hambro Corporation of Canada Limited, at par value of $25 each (b) below)	1,280,000	$ 1,316,000
	18,232,000	1,316,000

	1978	1977
Common shares —		
42.3% interest in common shares of the subsidiary, Foodex (note 2(a))		11,219,000
37.2% interest in common shares of Gibraltar	5,836,000	5,561,000
30.0% interest in common shares of a subsidiary of Gibraltar	1,474,000	1,469,000
	7,310,000	18,249,000
	$25,542,000	$19,565,000

(a) The preference shareholders of Foodex are entitled to fixed cumulative preferential cash dividends of \$0.855 per share per annum. During 1978 Foodex declared preference dividends aggregating \$901,786. Foodex may purchase for cancellation the whole or any part of the outstanding preference shares in the open market at a price not exceeding \$9.70 per share until July 15, 1983 and thereafter the preference shares are redeemable at \$9.40 to July 15, 1984 reducing by \$0.10 per share annually and thereafter at \$9.00 per share.

Foodex is required to make all reasonable efforts to purchase for cancellation in the open market the following percentages of the aggregate number of preference shares originally issued:

to September 30, 1978	—	4%
calendar quarters ending:		
December 31, 1978	—	3%
March 31, 1979	—	3%
June 30, 1979	—	2%
each calendar quarter therafter	—	1¼%

Such shares are to be purchased to the extent that they are available at a price not exceeding \$9.00 per share plus all accrued and unpaid cumulative preferential dividends thereon.

During 1978, Foodex purchased for cancellation 163,000 preference shares representing 8% of the aggregate number of preference shares originally outstanding. Such purchases are in excess (19,725 shares) of the mandatory purchase obligation to December 31, 1978.

As long as the preference shares of Foodex remain outstanding, the Corporation has agreed that, within sixty days of the fiscal year end of Foodex, it will subscribe for additional shares of Foodex ranking junior to the preference shares to the extent, if any, required to increase consolidated shareholder's equity of Foodex to \$33,198,000. Consolidated shareholders' equity of Foodex at December 31, 1978 was \$33,989,000.

(b) The preferred shares of Hambro Corporation of Canada Limited are redeemable at a premium of 3½% to February 1, 1981, 2½% to February 1, 1986 and 1½% thereafter.

12. Capital Stock

(a) The authorized and issued capital stock at December 31, 1978 and 1977 was as follows:

December 31, 1977 (predecessor corporation) —

Authorized:

525,000 non-voting, redeemable preference shares of no par value, ranking equally with common shares as to dividends and redeemable at \$4.35 per share

10,000,000 common shares of no par value

Issued and outstanding:	
447,699 preference shares	$ 1,948,000
7,103,867 common shares	27,832,000
	$29,780,000

December 31, 1978 —

Authorized:

1,881,060 Class A cumulative redeemable special shares having a par value of \$7.00 per share

2,654,830 Class B cumulative redeemable convertible special shares having a par value of \$7.00 per share

5,000,000 common shares without par value

Issued and outstanding:	
1,322,606 Class A special shares	$ 9,258,000
1,817,149 Class B special shares	12,720,000
3,500,000 common shares	19,804,000
	$41,782,000

Significant share capital transactions are described in note 1. In addition, the predecessor corporation, in 1978, redeemed all the previously issued and outstanding preference shares at $4.35 per share.

(b) Class A and Class B special shares —
The principal attributes of the special shares issued on amalgamation are summarized as follows:

(i) Dividends —
The holders of the special shares are entitled to receive fixed cumulative preferential dividends at an annual rate of 9¾% of the par value thereof (payable quarterly). During 1978 the Corporation declared a dividend of $0.2275 per share ($753,000) for the quarter ended December 31, 1978.

(ii) Redemption —
The special shares are redeemable at $7.50 per share prior to September 1, 1983, reducing by $0.10 per share annually until September 1, 1987 and thereafter at $7.00 per share.

(iii) Optional right to purchase for cancellation —
The Corporation may at any time purchase for cancellation all or any part of the special shares in the open market at a price not exceeding the then applicable redemption price plus all accrued and unpaid dividends.

(iv) Mandatory purchase obligation —
The Corporation is required to make all reasonable efforts to purchase for cancellation in the open market the following percentages of the aggregate number of special shares originally issued less any Class B special shares which have been exchanged into secured debentures:

to December 31, 1978	—	4%
calendar quarter ended March 31, 1979	—	2%
each calendar quarter thereafter	—	1%

Such shares are to be purchased to the extent that they are available at a price not exceeding $7.00 per share plus all accrued and unpaid dividends thereon.
During 1978 the Corporation purchased for cancellation 118,940 Class A special shares and 20,460 Class B special shares representing 4.3% of the aggregate number of special shares originally issued less 324,710 Class B special shares which were exchanged into secured debentures. Such purchases are in excess (8,414 shares) of the mandatory purchase obligation to December 31, 1978. The excess ($70,000) of the par value of the shares so purchased over the aggregate purchase price thereof ($906,000) is included in contributed surplus.

(v) Exchange right —
The holders of Class B special shares may at any time prior to September 30, 1980 exchange ten Class B special shares for one $70.00 secured debenture of the Corporation the terms of which are described in note 10(a). After expiry of the exchange right the Class B special shares will become Class A special shares.

(vi) Voting rights —
The holders of the special shares as a group are entitled at all meetings of shareholders to 103% of the votes attaching to the common shares.

(c) On December 28, 1978 the Corporation paid a dividend of $11,500,000 out of its 1971 Capital Surplus on Hand on the common shares then outstanding. These funds were loaned back to the Corporation on a demand basis at no interest to the Corporation.

13. Income Taxes

At December 31, 1978, the Corporation and certain subsidiaries had accumulated non-capital losses of $2,760,000 available to carry forward for tax purposes to apply against such income as may arise, and would otherwise be taxable, in future years. These losses, if not applied, will expire in the following fiscal years:

1979	—	$2,119,000
1980	—	253,000
1981	—	13,000
1982	—	375,000

In addition, the Corporation and certain subsidiaries have realized and unrealized net capital loss carry-forwards of approximately $3,378,000. Such losses are available indefinitely to apply against future net taxable capital gains.

No recognition has been given in these consolidated financial statements to future tax reductions which may result from the application of such losses.

14. Extraordinary Items

Extraordinary items comprise the following:

	1978	1977
Reduction of income taxes resulting from the carry-forward of prior years losses	$ 1,411,000	$ 277,000
Gain on —		
Sale of investment in Canada Trustco Mortgage Company (net of applicable income taxes of $389,000)		1,921,000
Sale of rental properties of Peel-Elder, including deferred income taxes recovered of $1,659,000		4,882,000
Write-down of investment in McIntyre Mines Limited (see note 5)		(2,663,000)
	$ 1,411,000	$ 4,417,000

15. Contingent Liabilities

A Canadian subsidiary of Foodex, Albemont Limited, and five other corporations were named in 1975 as defendants in a counterclaim made by Her Majesty The Queen in right of Canada for damages and costs in an unstated amount arising out of alleged bidding practices and/or a conspiracy with respect to same said to be contrary to honest industrial usage in Canada. Counsel for the Corporation understand that this action will not be proceeded with until criminal proceedings involving certain of the other defendants to the counterclaim have been disposed of and that it is possible that the action may not proceed at all as against Albemont Limited. Counsel are not able to advise at this stage what, if any, liability the Corporation may incur in this action.

Subsequent to the year end, Albemont Limited was named a co-defendant with six other parties who were previously named as defendants in 1975 in a claim made by the Hamilton Harbour Commission for damages in an unstated amount arising out of an alleged conspiracy in respect of quotations submitted which led to contracts dated in 1971 and 1972 respectively between the Hamilton Harbour Commission and two of the other defendants. Counsel are not able to advise at this stage what, if any, liability the Corporation may incur in this action.

Management of the Corporation and of Albemont Limited have no knowledge of any wrong doing by Albemont Limited in connection with the matters referred to in the counterclaim made by Her Majesty the Queen or in the claim made by the Hamilton Harbour Commission or of the evidence, if any, supporting the allegations made against Albemont Limited, and accordingly, no provision has been made in the consolidated financial statements for any liability in connection with these actions.

16. Commitments

At December 31, 1978 Foodex had rental commitments under lease agreements requiring minimum aggregate annual payments of $3,122,000 in 1979 reducing in stages to $90,000 in the year 2001.

Gibraltar and its subsidiary corporations are committed to annual rental payments of U.S. $108,000 from 1979 to 1982. In addition, the companies are parties to non-cancellable leases the rental payments on which are contingent as to amount of daily mutuel handles and number of racing days. Rental charges under the leases, which expire in 1980 and 1982, amounted to U.S. $649,000 and U.S. $558,000 in 1978 and 1977 respectively.

17. Anti-Inflation Program

The Corporation and its Canadian subsidiaries were subject to controls on prices, profits, employee compensation and shareholder dividends under the Federal Anti-Inflation Act to December 31, 1978. Management believes that the Corporation and such subsidiaries have complied with the legislation.

18. Subsequent Event

On March 16, 1979, the Corporation agreed in principle to grant an option, exercisable until June 30, 1979 to a company wholly owned by a controlling shareholder, to purchase the Corporation's real estate operations held by Peel-Elder. Consummation of the transaction is subject to approval by regulatory authorities, shareholders of North Canadian and the Corporation and certain other conditions.

AUDITORS' REPORT

To the Shareholders of
Hatleigh Corporation:

We have examined the consolidated balance sheet of Hatleigh Corporation as at December 31, 1978 and the consolidated statements of income, retained earnings, contributed surplus and changes in financial position for the year then ended. For Hatleigh Corporation, and for those subsidiaries of which we are auditors, our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of all other subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1978 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the consolidation of the accounts of Foodex Inc. as explained in note 2(a), on a basis consistent with that of the preceding year.

Toronto, Canada,
February 23, 1979 (except as to note 18
which is as of March 16, 1979)

Clarkson, Gordon & Co.
Chartered Accountants

AR01

HATLEIGH CORPORATION
and Subsidiary Corporations

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Six Months Ended June 30, 1978
(With comparative figures for 1977)
(Unaudited)

	1978 $('000)	1977 (Restated) Note 1 $('000)
Funds were provided from:		
Operations —		
Earnings before extraordinary items and minority interest	$ 2,190	$ 1,389
Add (deduct) charges (credits) not involving a flow of funds:		
Equity in share of earnings of unconsolidated subsidiary and associated companies	(172)	
Depreciation and amortization	1,577	1,706
Deferred income taxes	470	(625)
Amortization of development costs	165	42
Funds from operations	4,230	2,512
Reclassification of land held for resale to (from) current assets	(139)	24,956
Realization of income tax losses carried forward	690	39
Sale of subsidiary, Aetna-Goldale Investments Limited	—	760
Sale of investment in Canada Trustco Mortgage Company (net of applicable income taxes of $389,000)	—	2,350
Sale of other investments	992	—
Increase in long-term debt	15,000	2,661
Decrease in mortgages and other receivables	229	1,167
Proceeds from issue of shares	513	—
Total funds provided	21,515	34,445
Funds were applied to:		
Purchase fixed assets	2,765	976
Reduce long-term debt	997	5,705
Redeem preference shares	1,947	—
Development costs	308	140
Increase in investments	15,171	—
Other	103	53
Total funds applied	21,291	6,874
Increase in working capital	224	27,571
Working capital (deficiency), beginning of period	190	(32,131)
Working capital (deficiency), end of period	$ 414	$ (4,560)

(See accompanying note)

HATLEIGH CORPORATION

INTERIM REPORT

for the Six Months Ended June 30, 1978

To the shareholders

The consolidated statement of operations for the six months ended June 30, 1978 shows earnings of $2,305,000 or 31¢ per share compared with earnings of $1,121,000 or 15¢ per share for the comparable period last year. The accounts of Foodex have been consolidated for the first time in the six month period ended June 30, 1978 and consequently the 1977 comparative figures have been restated to reflect this change.

The amalgamation of Foodex Systems Limited and a wholly owned subsidiary of the Corporation into Foodex Inc. was completed June 30, 1978.

You are referred to the information circular dated August 10, 1978 sent to shareholders of the Corporation by North Canadian Oils Limited respecting the proposed amalgamation between the Corporation and a wholly owned subsidiary of North Canadian Oils Limited.

On Behalf of the Board

J. F. Kay

Chairman

Toronto, Canada
August 23, 1978

HATLEIGH CORPORATION
and Subsidiary Corporations

CONSOLIDATED STATEMENT OF OPERATIONS

For Six Months Ended June 30, 1978
(With comparative figures for 1977)
(Unaudited)

	1978	1977 *(Restated) Note 1*
	$('000)	$('000)
Revenue:		
Restaurant operations	$28,854	$24,640
Racetrack operations	16,049	10,340
Real Estate Operations	8,976	4,978
Equity in earnings of North Canadian Oils Limited	172	—
Discontinued real estate operations	—	6,971
Other	165	799
	54,216	47,728
Expenses:		
Costs of operations and administrative expenses	44,923	37,698
Depreciation and amortization	1,742	1,748
Interest on — long-term debt	2,037	4,907
— other	1,072	1,387
Minority interest	575	692
	50,349	46,432
Earnings before income taxes and extraordinary items	3,867	1,296
Income taxes — current	1,782	1,224
— deferred	470	(625)
	2,252	599
Earnings before extraordinary items	1,615	697
Extraordinary items —		
Reduction of income taxes resulting from the carry-forward of prior years' losses	690	39
Gain on sale of shares of Canada Trustco Mortgage Company (net of applicable income taxes of $389,000)	—	385
	690	424
Earnings for the period	$ 2,305	$ 1,121
Earnings per common and preference share:		
Earnings before extraordinary items	$0.21	$0.09
Earnings for the period	$0.31	$0.15

NOTE 1 — The activities of Foodex first became integrated, and therefore its accounts were first consolidated, in the six month period ended June 30, 1978. For comparative purposes, the accounts of Foodex for prior periods have been retroactively consolidated in these financial statements. Since the investment in Foodex was previously accounted for on the equity basis of accounting, such retroactive treatment has had no effect on previously reported earnings.